

the items referred to in paragraph (2)(C) shall be excluded.

Except as provided in the preceding sentence, this subsection

shall not affect the taxation of any distribution from the trust.

"(4) TREATMENT OF UNUSED DEDUCTIONS WHERE TERMINATION OF SEPARATE TRUST.—If a portion of an

electing small business trust ceases to be treated as a separate trust

under paragraph (1), any carryover or excess deduction of the separate

trust which is referred to in section 642(h) shall be taken

into account by the entire trust.

"(5) ELECTING SMALL BUSINESS TRUST.—For purposes of this subsection, the term "electing small business trust"

has the meaning given such term by section 1361(e)(1)."

(e) TECHNICAL AMENDMENT.—Paragraph (1) of section 1366(a) is amended by inserting ", or of a trust or estate which terminates" after "who dies".

#### SEC. 1303. EXPANSION OF POST-DEATH QUALIFICATION FOR CERTAIN TRUSTS.

Subparagraph (A) of section 1361(c)(2) (relating to certain trusts

permitted as shareholders) is amended—

(1) by striking "60-day period" each place it appears in clauses (ii) and (iii) and inserting "2-year period", and

(2) by striking the last sentence in clause (ii).

#### SEC. 1304. FINANCIAL INSTITUTIONS PERMITTED TO HOLD SAFE HARBOR DEBT.

Clause (iii) of section 1361(c)(5)(B) (defining straight debt) is

amended by striking "or a trust described in paragraph (2)"

and inserting "a trust described in paragraph (2), or a person which

is actively and regularly engaged in the business of lending money".

#### SEC. 1305. RULES RELATING TO INADVERTENT TERMINATIONS AND INVALID ELECTIONS.

(a) GENERAL RULE.—Subsection (f) of section 1362 (relating

to inadvertent terminations) is amended to read as follows:

"(f) INADVERTENT INVALID ELECTIONS OR TERMINATIONS.—If—

"(1) an election under subsection (a) by any corporation—

"(A) was not effective for the taxable year for which

made (determined without regard to subsection (b)(2))

by reason of a failure to meet the requirements of section

1361(b) or to obtain shareholder consents, or

"(B) was terminated under paragraph (2) or (3) of subsection (d).

"(2) the Secretary determines that the circumstances result-

ing in such ineffectiveness or termination were  
inadvertent.

"(3) no later than a reasonable period of time after  
discovery  
of the circumstances resulting in such ineffectiveness  
or termi-  
nation. steps were taken—

"(A) so that the corporation is a small business corpora-  
tion. or

"(B) to acquire the required shareholder  
consents. and

"(4) the corporation, and each person who was a  
share-  
holder in the corporation at any time during the  
period specified  
pursuant to this subsection, agrees to make such  
adjustments

(consistent with the treatment of the corporation  
as an S cor-  
poration) as may be required by the Secretary  
with respect  
to such period,